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STATE OF MONTANA
REPORT TO THE LEGISLATURE
EASTMONT HUMAN SERVICES CENTER
EXAMINATION OF FINANCIAL STATEMENTS
FISCAL YEARS ENDED JUNE 30, 1981 AND 1982



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EASTMONT HUMAN SERVICES CENTER
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FISCAL YEARS ENDED JUNE 30, 1981 AND 1982

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/449-3122



ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

November 9, 1982

DEPUTY LEGISLATIVE AUDITORS:

JAMES H. GILLET
FINANCIAL/COMPLIANCE
AND CONTRACTED AUDITS

SCOTT A. SEACAT
PERFORMANCE/SUNSET AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Eastmont Human Services
Center for the two fiscal years ended June 30, 1982.

The audit was conducted by Galusha, Higgins & Galusha under a
contract between the firm and our office. The comments and recom-
mendations contained in this report represent the views of the firm
and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,

Robert R. Ringwood
Robert R. Ringwood
Legislative Auditor

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ADMINISTRATIVE OFFICIALS
DEPARTMENT OF INSTITUTIONS

Mr. Carroll South

Director

EASTMONT HUMAN SERVICES CENTER

Mr. Gerald F. Butcher

Director

Ms. Cindy Shanley

Business Manager

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of Eastmont Human Services Center is included in the back of this report.

	<u>Page</u>
1A. Provide a specific audit trail of changes made to the summary of general fixed assets on a fiscal-year to fiscal-year basis.	6
<u>Agency Reply:</u> Concur. See page 21	
1B. Communicate specific roles and overall importance of the fixed asset control system to all employees in order to improve their cooperation.	6
<u>Agency Reply:</u> Concur. See page 21	
1C. Training should be provided to business manager and clerk in methods of accounting for fixed assets which are recognized by generally accepted accounting principles.	6
<u>Agency Reply:</u> Concur. See page 21	
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<u>Agency Reply:</u> Concur. See page 21	
2A. Enforce controls already designed for food stores inventory.	7
<u>Agency Reply:</u> Do not Concur. See page 21	
2B. Improve the accuracy of the perpetual inventory.	7
<u>Agency Reply:</u> Concur. See page 22	

SUMMARY OF RECOMMENDATIONS, Continued

- | | <u>Page</u> |
|---|-------------|
| 3. Review more closely entries made to the financial records at/or near the end of the fiscal year. | 7 |

Agency Reply: Concur. See page 22

- | | |
|--|---|
| 4. Year-end accruals should be made to properly match revenues and expenditures to the same accounting period. | 8 |
|--|---|

Agency Reply: Concur. See page 22

COMMENTS

INTRODUCTION

We performed a financial/compliance audit of Eastmont Human Services Center for the two fiscal years ended June 30, 1982. The objectives of the audit were to: (1) determine that the Center's financial statements present fairly the financial position of the various funds for the two fiscal years ended June 30, 1982; (2) determine Center compliance with applicable laws and regulations; and (3) make recommendations for improving Center management and internal controls.

In accordance with Section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the Department of Institutions' and the Eastmont Human Services Center's staff for their cooperation and assistance during our audit.

BACKGROUND

Eastmont Human Services Center was established as Eastmont Training Center at Glendive in 1967 by extraordinary session House Bill Number 13 of the 40th Legislative Session. The purpose of the Center is to provide residential and day training to severely and profoundly retarded people through a 5-day program and a 7-day program.

The 5-day program includes people who range in age from four to seventeen years. Course instruction includes academics, home living, perceptual training, social awareness, recreation and physical education, speech therapy and pre-vocational training. The Center's goal is to allow these people to remain in their homes and communities as functioning and productive members of society.

The 7-day program includes people of all ages. The majority of these residents were transferred to the Center from the State institution in Boulder and require around the clock supervision. These people receive the same kinds of training as the 5-day residents.

The Center is under the general control and supervision of the Montana State Department of Institutions. Principal management responsibility for the Center's operations is assigned to the superintendent, Gerald F. Butcher. The physical plant consists of two cottages for residents' living quarters, one cottage for classrooms and administrative offices, a multi-purpose building and a storage building.

The sources of revenue to operate the Center come from the State's General Fund, Federal and State grants, including Title I, Title IV, Food Service and contributions from private citizens and organizations.

BACKGROUND, Continued

The Center maintains trust and agency funds for the residents. The funds are held in petty cash, a checking account, and individual savings accounts. At June 30, 1982, the Department of Institutions held, on behalf of the Center, \$102,491 which is the subject of a class action lawsuit filed in 1975 by two Warm Springs patients, Underwood and Cadwell, which involved Eastmont in the last half of 1980. These funds will be held in trust pending settlement of the suit. Unrestricted funds are used for personal expenditures to benefit individual residents.

RECOMMENDATIONS OF PRIOR AUDIT

A certified public accounting firm performed an audit of the Center for the fiscal year ended June 30, 1980. The audit report was issued in December of 1980. The report contained twelve recommendations; seven of which the Center concurred with and subsequently implemented. The five remaining recommendations not concurred with by the Center, related to procedural recommendations which the Center had previously implemented or represented isolated internal control breakdowns which did not justify additional procedures. We have subsequently reviewed the "not-concurred-with recommendations" and now agree with the Center's resolution of these recommendations.

ACCOUNTING FOR GENERAL FIXED ASSETS

The Center maintains a card file system to account for and control general fixed assets. The system accounts for the technical descriptions, purchase dates, location, and cost of each fixed asset. The individual cards are summarized by a numerical listing which corresponds to the inventory tag number physically placed on the asset. The total fixed asset cost of nearly two million dollars is significant and Center control thereof is very important.

Our tests of the accounting and control of general fixed assets revealed that: (1) the Center's summaries of fixed assets and related yearly activity could not be reconciled to each years additions, deletions or transfers. Individual items were listed in one year, scratched-out and/or transferred to another year or category without leaving an adequate audit trail; (2) individual items disposed of are not always removed from the control list; (3) individual assets transferred from one responsibility center to another are not consistently and timely recorded in the fixed asset control system, and (4) assets which are acquired partially by trading-in other items are not recorded utilizing generally accepted accounting principles. However, this failure to utilize generally accepted accounting principles does not materially affect the financial statements due to the small number of items involved and their minor dollar amounts.

Recommendation #1

We recommend that Eastmont Human Services Center:

- A. Alter the recording practices for fixed assets in order to provide a specific audit trail of changes made to the summary of general fixed assets on a fiscal-year to fiscal-year basis.
- B. All employees should be made aware of their respective duties and responsibilities to make the control system operate as an effective method for safeguarding Center assets. All items disposed of or transferred must be reported and recorded to keep the system accurate and meaningful for physical control and accounting purposes.
- C. The business manager and the clerk assigned to account for fixed asset transactions should be trained in the methods of accounting for fixed assets which are recognized by generally accepted accounting principles.
- D. Review and evaluate the possibility of utilizing the PAMS system available from the State of Montana.

INVENTORIES

The Center maintains inventories of food and maintenance supplies. Physical inventories are taken monthly of food stores, and annually of maintenance supplies. A monthly usage report of food is generated based on purchases and the change in inventory for the month. The usage report is reviewed to control food quantities consumed each month. A perpetual inventory system is utilized for the maintenance supplies with actual purchases and issues from inventory reported to a clerk responsible for updating the perpetual records. The annual physical inventory is taken on June 30.

Our review of controls and accounting practices for inventories revealed that the major portion of inventory, food stores, has adequate controls, but for convenience, some controls are occasionally circumvented. The control procedure which requires two keys in order to gain access to the food stores inventory is circumvented by the second key being available to either cook. The control procedure which calls for a monthly physical inventory is weakened by allowing one of the cooks, who has access to food stores, to assist with the physical inventory counting.

The system to control maintenance supplies is adequate for the size of the inventory, even though our tests indicate that the perpetual accounting is not accurate. The June 30, 1982 perpetual records were not adjusted to agree with the June 30, 1982 physical inventory. Therefore, the perpetual inventory errors (whether purchases or issues) which occurred during the year were not corrected at year end. The inventory values reflected on the June 30, 1982 financial statements properly represent the amounts as shown on the year end physical counts rather than those taken from the unadjusted perpetual records.

Recommendation #2

We recommend that Eastmont Human Services Center:

- A. Enforce the controls already designed for food stores inventory by requiring dual employee presence in order to access the inventory, and utilize two employees who don't usually have access to the inventory to physically count the inventory each month.
- B. Review, with the employees responsible for maintenance supplies, the benefits of having an accurate perpetual inventory. Cooperation of each employee is essential to insure the accuracy of the system. When a physical inventory is taken, the perpetual records should be updated to reflect the actual quantities on hand. Significant variances between the perpetual record and the actual count should be reviewed with the employees involved to determine if the control system has failed. In the event of a system failure, the employee input should be solicited in order to strengthen and improve the system.

TITLE I

Any unexpended balance in the Title I grant to Eastmont is to revert back to the funding agency at the end of each year. The accounting entries are all generated at the State level to bring the fund balance to zero. At the end of fiscal year June 30, 1981, the fund balance was automatically adjusted to zero. During the early part of fiscal year 1981-1982, a Journal Voucher was generated with the intent to reflect the reversion of Title I monies. As a result, the reversion was reported twice; once in fiscal year 1980-1981 and again in fiscal year 1981-1982. The effect on the financial statements was an understatement of Title I receipts and fund balance for fiscal year ended June 30, 1982 by \$1,314.

Recommendation #3

Because entries made at the end of the fiscal year are more susceptible to error than the recurring monthly entries, special care should be taken to review the timing and effect of these entries before formally entering them into the accounting records.

FOOD SERVICE REIMBURSEMENTS

State regulations require that whenever possible, federal monies are to be expended first. Because of the timing of the accruals for food service reimbursements, the regulation is not being followed. Revenue accruals for May and June of 1981 are reflected in fiscal year 1981-82 and resulted in the revenue not being properly matched against the expenditures to which the revenue relates. This situation was corrected for fiscal year 1982 which resulted in 10 months revenue reflected in fiscal year 1981, and 14 months in fiscal year 1982.

Recommendation #4

Special emphasis should be placed on recording the proper accruals at year end, particularly for revenue accruals, in order to comply with the requirement that federal monies be expended first. A consistent practice should be adopted and followed to avoid situations similar to the one described above.

INTERNAL CONTROL

As part of our examination, we made a study and evaluation of Eastmont Human Services Center's system of internal accounting control to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures necessary for expressing an opinion on the financial statements and to assist in planning and performing our examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

Our study and evaluation of Eastmont's system of internal accounting control for fiscal year 1980-81 and 1981-82 would not necessarily disclose all weaknesses in the system because it was based upon selected tests of accounting records and related data. Our tests disclosed no material weaknesses in internal control. However, those internal control weaknesses identified during the audit and which warrant management's attention are described in various sections of this report.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

September 3, 1982

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Combined Balance Sheets for all funds and account groups of Eastmont Human Services Center as of June 30, 1981 and 1982, and the Combined Statements of Revenues, Expenditures, and Changes in Fund Balances, Budget and Actual, General and Special Revenue Funds for the two years then ended. Our examination was made in accordance with generally accepted government auditing standards for financial compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of such funds of Eastmont Human Services Center at June 30, 1982, and the results of operations and changes in fund balance of the General and Special Revenue Funds for the two fiscal years then ended, in conformity with generally accepted accounting principles which have been applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The column on the accompanying financial statements referred to in paragraph one captioned "Total (Memorandum Only)" and the other financial information listed in the Table of Contents is not necessary for a fair presentation of the financial statements, but is presented as additional analytical data. This supplemental information and data has been subjected to the tests and other auditing procedures applied in the examination of the financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Galusha Higgins and Galusha

EASTMONT HUMAN SERVICES CENTER
COMBINED BALANCE SHEET-ALL FUNDS AND ACCOUNT GROUPS
JUNE 30, 1982

ASSETS	GOVERNMENTAL FUND TYPES	
	General	Special Revenue
Cash-revolving fund	200	--
Cash in treasury	--	8,486
Accounts receivable receipts: Current	72,263	713
Deferred	103,835	
Less:		
Allowance for uncollectible accounts	(8,800)	
	95,035	
Accounts receivable-FYE cash cutoff	121	--
Due from FYE cash cutoff	1,635	--
Merchandise inventory	11,338	--
Expense advances to employees	--	--
Other advances	140	--
General fixed assets:		
Land	--	--
Buildings	--	--
Other improvements	--	--
Equipment	--	--
Assets available to pay accrued expenditures and accounts payable	45,507	--
Total assets	<u>226,239</u>	<u>9,199</u>
LIABILITIES, RESERVE AND FUND BALANCES		
Accounts payable-FYE cash cutoff	96,437	2,533
Accrued expenditures	21,794	--
Due to FYE cash cutoff	1,635	--
Deferred revenue	95,035	--
Accountability for property held in trust	--	--
Total liabilities	<u>214,901</u>	<u>2,533</u>
FUND EQUITY		
Investment in general fixed assets	--	--
Fund balances	--	--
Reserve for inventories	11,338	--
Unreserved	--	6,666
Total fund equity	<u>11,338</u>	<u>6,666</u>
Total liabilities and fund equity	<u>226,239</u>	<u>9,199</u>

Fiduciary Fund Types Trust and Agency	Account Group General Fixed Assets	Totals (Memorandum Only)	
		June 30, 1982	June 30, 1981
--	--	200	80,718
136,851	--	145,337	11,169
--	--	72,976	--
--	--	95,035	--
--	--	121	741
--	--	1,635	3,877
--	--	11,338	11,028
--	--	--	(20)
--	--	140	140
--	17,114	17,114	17,114
--	1,935,303	1,935,303	1,935,303
--	18,178	18,178	17,562
--	189,202	189,202	171,626
--	--	45,507	64,436
<u>136,851</u>	<u>2,159,797</u>	<u>2,532,086</u>	<u>2,313,694</u>
17	--	98,987	58,361
--	--	21,794	11,115
--	--	1,635	3,877
--	--	95,035	--
131,059	--	131,059	80,518
<u>131,076</u>	<u>---</u>	<u>348,510</u>	<u>153,871</u>
--	2,159,797	2,159,797	2,141,605
--	--	--	--
--	--	11,338	11,028
5,775	--	12,441	7,190
<u>5,775</u>	<u>2,159,797</u>	<u>2,183,576</u>	<u>2,159,823</u>
<u>136,851</u>	<u>2,159,797</u>	<u>2,532,086</u>	<u>2,313,694</u>

The accompanying notes are an integral part of these financial statements.

EASTMONT HUMAN SERVICES CENTER
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	GENERAL FUND		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Reimbursements	869,487	720,233	(149,254)
Income collections and transfers	200	122	(78)
Federal assistance	--	--	--
Total revenues	<u>869,687</u>	<u>720,355</u>	<u>(149,332)</u>
EXPENDITURES			
Program 12	1,690,795	1,581,513	109,282
Total expenditures	<u>1,690,795</u>	<u>1,581,513</u>	<u>109,282</u>
Excess of current revenues over (under) current expenditures	(821,108)	(861,158)	(40,050)
OTHER FINANCING SOURCES (USES)			
Prior year adjustment	--	(79)	(79)
Support from/to general fund	<u>821,108</u>	<u>861,237</u>	<u>40,129</u>
Excess of revenues over (under) expenditures and other sources (uses)	--	--	--
Fund balance, June 30, 1981	<u>--</u>	<u>--</u>	<u>--</u>
Fund balance, June 30, 1982	<u>--</u>	<u>--</u>	<u>--</u>

Special Revenue			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
--	--	--	869,487	720,233	(149,254)
--	--	--	200	122	(78)
58,397	49,801	(8,596)	58,397	49,801	(8,596)
<u>58,397</u>	<u>49,801</u>	<u>(8,596)</u>	<u>928,084</u>	<u>770,156</u>	<u>(157,928)</u>
40,948	44,902	(3,954)	1,731,743	1,626,415	105,328
<u>40,948</u>	<u>44,902</u>	<u>(3,954)</u>	<u>1,731,743</u>	<u>1,626,415</u>	<u>105,328</u>
17,449	4,899	(12,550)	(803,659)	(856,259)	(52,600)
--	--	--	--	(79)	(79)
<u>--</u>	<u>--</u>	<u>--</u>	<u>821,108</u>	<u>861,237</u>	<u>40,129</u>
17,449	4,899	(12,550)	17,449	4,899	(12,550)
<u>(4,374)</u>	<u>1,767</u>	<u>6,141</u>	<u>(4,374)</u>	<u>1,767</u>	<u>6,141</u>
<u>13,075</u>	<u>6,666</u>	<u>(6,409)</u>	<u>13,075</u>	<u>6,666</u>	<u>(6,409)</u>

The accompanying notes are an integral part of these financial statements.

EASTMONT HUMAN SERVICES CENTER
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 1981

	GENERAL FUND		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Reimbursements	--	794,124	794,124
Rentals, leases and royalties	--	10	10
Miscellaneous	--	375	375
Income collections	249	106	(143)
Federal assistance	--	--	--
Total revenues	<u>249</u>	<u>794,615</u>	<u>794,366</u>
EXPENDITURES			
Program 12	<u>1,405,789</u>	<u>1,385,210</u>	<u>20,579</u>
Total expenditures	<u>1,405,789</u>	<u>1,385,210</u>	<u>20,579</u>
Excess of current revenues over (under) current expenditures	(1,405,540)	(590,595)	814,945
OTHER FINANCING SOURCES (USES)			
Prior year adjustments	--	998	998
Support from/to general fund	<u>1,405,540</u>	<u>589,597</u>	<u>(815,943)</u>
Excess of revenues over (under) expenditures and other sources (uses)	--	--	--
Fund balance, July 1, 1980	<u>--</u>	<u>--</u>	<u>--</u>
Fund balance, June 30, 1981	<u>--</u>	<u>--</u>	<u>--</u>

Special Revenue			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
--	454	454	--	515	515
--	--	--	--	10	10
--	--	--	--	375	375
--	--	--	249	106	(143)
<u>54,967</u>	<u>37,917</u>	<u>(17,050)</u>	<u>54,967</u>	<u>37,917</u>	<u>(17,050)</u>
<u>54,967</u>	<u>38,371</u>	<u>(16,596)</u>	<u>55,216</u>	<u>38,923</u>	<u>(16,293)</u>
 <u>61,521</u>	 <u>37,059</u>	 <u>24,462</u>	 <u>1,467,310</u>	 <u>1,422,269</u>	 <u>45,041</u>
<u>61,521</u>	<u>37,059</u>	<u>24,462</u>	<u>1,467,310</u>	<u>1,422,269</u>	<u>45,041</u>
(6,554)	1,312	7,866	(1,412,094)	(1,383,346)	28,748
--	10	10	--	1,008	1,008
<u>--</u>	<u>--</u>	<u>--</u>	<u>1,405,540</u>	<u>1,383,660</u>	<u>(21,880)</u>
 (6,554)	 1,322	 7,876	 (6,554)	 1,322	 7,876
<u>2,180</u>	<u>445</u>	<u>(1,735)</u>	<u>2,180</u>	<u>445</u>	<u>(1,735)</u>
<u>(4,374)</u>	<u>1,767</u>	<u>6,141</u>	<u>(4,374)</u>	<u>1,767</u>	<u>6,141</u>

The accompanying notes are an integral part of these financial statements.

EASTMONT HUMAN SERVICES CENTER
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEARS ENDED JUNE 30, 1981 AND 1982

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS).

BASIS OF ACCOUNTING - The Eastmont Human Services Center utilizes the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded on the basis of valid obligations. Revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if 1) they are measurable and available to finance expenditures of the fiscal period or 2) are material in amount and are not received at the normal time of receipt.

FUND TYPES - The State of Montana accounts are organized by a fund structure as outlined in section 17-2-102, MCA. For financial presentation, these funds have been reclassified according to the National Council on Governmental Accounting (NCGA), Governmental Accounting and Financial Reporting Principles Statement 1.

- a. GENERAL FUND - the general fund accounts for all financial resources except for those required to be accounted for in another fund.
- b. SPECIAL REVENUE FUND - This fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Special revenue fund includes the Federal and Private Revenue Fund.
- c. FIDUCIARY FUNDS - Trust and Agency Funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The Center's agency fund classified as trust and agency/fiduciary fund includes the institutions resident accounts and the Center's donation fund.
- d. GENERAL FIXED ASSETS ACCOUNT GROUP - This account group accounts for all fixed assets of the Center. The Center has not yet begun utilizing the Property Accountability Management Systems (PAMS), which accounts for fixed assets statewide.

Fixed asset purchases by the General Fund are recorded as expenditures at the time of the purchases, and these items are capitalized in the Center's records as General Fixed Assets. No depreciation is recorded on General Fixed Assets.

EASTMONT HUMAN SERVICES CENTER
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEARS ENDED JUNE 30, 1981 AND 1982

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

- e. VACATION AND SICK PAY - Annual leave and sick leave costs are not recorded as expenditures until leave is taken. State law permits employees to accumulate and carryover to a new calendar year a maximum of two times their annual accumulation of vacation. An employee is allowed 90 days of the following year to use any annual leave accumulated in excess of the allowed carryover. Upon termination, qualifying employees having unused accumulated vacation and sick leave receive payment for vacation on a 100 percent basis and sick leave on a 25 percent basis. The amount of the liability associated with unused accumulated vacation and sick leave at June 30, 1982 is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated until an employee terminates.
- f. LEASE - The Center is leasing a copy machine for a two year period. No purchase options are available, and the Center expects to lease a different machine when the current lease expires. Monthly rental is \$300 with credit being allowed in the first year of the lease for the value of a machine traded for the new one. Lease payments totalled \$2,925 in fiscal year 1981, and \$3,600 for fiscal year 1982.
- g. CAPITAL PROJECTS ACTIVITY - Capital projects of the various State agencies are accounted for in total in a separate State Fund by the State of Montana. At completion of the capital project, the individual State agency records the asset in their respective general fixed asset group of accounts. Therefore, the expenditures as reflected in the Statement of Construction Projects Activity are a part of and included in the State capital projects fund and ultimately will be transferred to the Center's general fixed asset group of accounts.
- h. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS - The reserve method of accounting for bad debts is used. This method recognizes a portion of accounts receivable to be uncollectible based on the Center's evaluation of the collectability of the accounts.

Note B - RETIREMENT PLAN

The Center participates in the Public Employees' Retirement System, a contributory plan which covers public employees in the state. The state contributes 6.2 percent of an employee's gross wages and the employee contributes 6 percent of his gross wages to the plan. The Center incurred pension costs of \$60,797 during the

EASTMONT HUMAN SERVICES CENTER
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEARS ENDED JUNE 30, 1981 AND 1982

Note B - RETIREMENT PLAN, Continued

1980-81 fiscal year, and \$66,063 during 1981-82. At June 30, 1982 the Public Employee's Retirement System was reported to be actuarially sound according to the System's actuary. The unfunded past service costs and the actuarially computed value of vested benefits were not readily available for members of the plan employed by the agency in fiscal year 1980-81 and 1981-82.

Note C - BUDGET INFORMATION

The Center utilizes a fixed annual basis of budgeting. Under the fixed annual method, appropriations of specific dollar amounts are set for each fiscal year of a biennium by the legislature. Appropriations control the department's financial operations during each fiscal year. At the end of each year, the Center's appropriation authority reverts to the fund of original appropriation. The reverted appropriation authority may be used in the subsequent year for payment of valid prior year obligations. In fiscal years 1980-81 and 1981-82 the Center's appropriations were \$1,456,891 and \$1,579,679, respectively.

Note D - REIMBURSEMENT

Reimbursements are funds received for patient services provided by the Center. The Center receives reimbursements from four sources: Medicare, Medicaid, private insurance companies, and individuals responsible for the patients. Reimbursements are deposited in the General Fund in accordance with section 53-1-413, MCA. In fiscal year 1981, these reimbursements were not originally reported separately in the Center's financial records, but were reported by the State Reimbursement Bureau as dictated by State policy at that time and in effect were included as a portion of the "support from the general fund." However, the Center's fiscal year 1981 financial statements have been modified in order to reflect these reimbursements separately and therefore, more comparable to fiscal year 1982.

OTHER FINANCIAL INFORMATION

EASTMONT HUMAN SERVICES CENTER
STATEMENT OF CAPITAL PROJECTS ACTIVITY
FOR THE YEAR ENDED JUNE 30, 1982

MODIFY BATHROOMS AND LAUNDRY	
Appropriation	57,000.00
Expenditures:	
James R. Fillerup-Architect	7,670.00
Building Codes-review of plans	<u>164.60</u>
Total expenditures	<u>(7,834.60)</u>
Unexpended appropriation	<u><u>49,165.40</u></u>

AGENCY REPLY

DEPARTMENT OF INSTITUTIONS



TED SCHWINDEN GOVERNOR

1539 11TH AVENUE

STATE OF MONTANA

(406) 449-3930

HELENA, MONTANA 59620

November 15, 1982

Mr. Jim Swain
Galusha, Higgins and Galusha
Box 2532 - 301 North 27th St.,
Billings, MT 59103

Dear Mr. Swain:

We have reviewed the comments section of the audit report for Eastmont Human Services Center.

The report provides a very welcome service and is sincerely appreciated. The response to your recommendations is attached.

Sincerely,

A handwritten signature in black ink, appearing to read "Carroll V. South".

CARROLL V. SOUTH
Director

CVS:bt

Attachment

EASTMONT AUDIT RECOMMENDATIONS AND RESPONSES

Recommendation #1

We recommend that Eastmont Human Services Center:

- A. Alter the recording practices for fixed assets to allow for a specific audit trail of changes made to the summary of general fixed assets on a fiscal-year-to-fiscal-year basis.
- B. All employees should be made aware of their respective duties and responsibilities to make the control system operate as an effective method for safeguarding Center assets. All items disposed of or transferred must be reported and recorded to keep the system accurate and meaningful for physical control and accounting purposes.
- C. The business manager and the clerk assigned to account for fixed asset transactions should be trained in the methods of accounting for fixed assets which are recognized by generally accepted accounting principles.
- D. Review and evaluate the possibility of utilizing the PAMS system available from the State of Montana.

RESPONSE

Part A - Concur. Documentation as to disposal of fixed assets will be kept with the inventory listing summary for audit purposes.

Part B - Concur.

Part C - Concur. The business manager will seek help from the Accounting Division.

Part D - Concur. Eastmont has made contact with the State's accounting division and we plan to go to the PAMS system. However, because we are currently functioning with an acting Superintendent, the pending legislative session, and fiscal year end closing, we will be unable to get on PAMS before 12-31-83.

Recommendation #2

We recommend that Eastmont Human Services Center:

- A. Enforce the controls already designed for food stores inventory by requiring two people to access the inventory, and using two people who don't usually have access to the inventory to take the physical count each month.

- B. Review with the employees responsible for maintenance supplies the benefits of having an accurate perpetual inventory. Cooperation of each employee is essential to insure the accuracy of the system. When a physical inventory is taken, the perpetual records should be updated to reflect the actual quantities on hand. Significant variances between the perpetual record and the actual count should be reviewed with the employees involved to determine if the control system has failed and how it can be strengthened and improved.

RESPONSE

Part A - This recommendation is not feasible due to limited staffing. There are many times when only two people are on shift in the kitchen. This would leave the kitchen uncovered for the period of time the staff is in the warehouse, thereby defeating the control system. We will continue to have the food service manager and general office clerk take the monthly physical food inventory.

Part B - Concur. Inservice training will be conducted.

Recommendation #3

Because entries made at the end of the fiscal year are more susceptible to error than the recurring monthly entries, special care should be taken to review the timing and effect of the entries before formally entering them to the accounting records.

RESPONSE

Concur.

Recommendation #4

Special emphasis should be placed on recording the proper accruals at year end, particularly for revenue accruals, in order to comply with the requirement that federal monies be expended first. A consistent practice should be adopted and followed to avoid situations similar to the one described above.

RESPONSE

Concur.

